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REVIEW OF THE WORLD SITUATION



CIA 9-49

Published 14 September 1949

CENTRAL INTELLIGENCE AGENCY

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W A R N I N G

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

SUMMARY

1. The British financial crisis under discussion at Washington is but one aspect of the present critical state of the European Recovery Program. Barring a perpetuation of dollar subsidies, a solution of the problem will require more fundamental readjustments in the structure of Western European production and trade than have yet been undertaken.

2. Current developments in the area now make possible a reduction of the Greek guerilla threat to manageable proportions.

3. The intensification of Soviet pressure against the Tito regime is probably intended to protect isolated Albania and to encourage

dissident elements within Yugoslavia. The threat to Tito is of subversion rather than of direct military intervention. Tito, however, is probably able to control the situation within Yugoslavia.

4. Chinese Nationalist resistance on the continent has disintegrated into isolated segments the continued existence of which is more a matter of Communist logistical limitations than of their own inherent strength. The short-term prospect for continuing resistance on Taiwan is somewhat better, but by reason of its insular position rather than of military or political strength.

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information herein is as of 9 September 1949.

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1. General.

The theme of CIA 7-49 (July) was that, with the conclusion of the recent session of the Council of Foreign Ministers, internal developments within the Western and Soviet spheres respectively would become the principal concern of statesmen. Particular reference was then made to the fundamental economic problems confronting the Western world and to the also fundamental problem of nationalist deviations within the Soviet orbit.

During the past month both of these internal problems have been brought into sharp focus. In Washington the representatives of

Great Britain, Canada, and the United States are seeking to deal with the again critical financial situation of the United Kingdom. The British crisis, however, is but one aspect of the broader problem confronting the OEEC. Soviet propaganda, of course, delights to dwell on this subject. The more immediate concern of the USSR, however, is the iniquity of that supreme national deviationist, Tito of Yugoslavia, against whom the USSR now threatens to employ "more effective measures."

On the other side of the world, meanwhile, the sands are running out for Nationalist China.

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THE CRITICAL STATE OF EUROPEAN RECOVERY

2. The Washington Conference.

The current economic and financial consultations at Washington will probably result in some limited measures designed to ease the pressure on British gold and dollar reserves. They will also provide the British Government with a clearer understanding of the area within which it will now have to shape its external and internal financial and economic policies. The future value of Britain as an ally of the United States will be strongly affected by whether these policies contribute to the successful adaptation of the British economy to the fundamental changes which have occurred in the world economy.

3. The General European Problem.

The re-establishment of a self-sustaining economy in Western Europe involves not only recovery from specific local effects of the war, but also profound readjustments to meet economic trends operative before the war and greatly aggravated by it. In the terms of this basic problem, the European Recovery Program is a palliative, not a cure. Addressed to the emergency situation of 1946-1947, the Program proved a striking political success in

restoring confidence, stemming the tide of Communism, and preparing the way for Western Union and the North Atlantic Treaty. It made possible a remarkable recovery in industrial employment and production and a considerable reduction of inflationary pressures. However, the very emphasis upon a rapid increase in production and upon the satisfaction of urgent postwar demand in domestic and soft-currency markets, together with optimistic expectations of dollar earnings, has tended to retard Western European readjustment to the basically altered economic situation. The maintenance and development of European production depends upon continued imports from the dollar area which cannot be paid for through current dollar earnings. Barring a perpetuation of dollar subsidies, solution of the fundamental problem requires a rationalization of European production and trade, on a collective rather than a national basis, and a concomitant readjustment of US policies to stimulate and accommodate that development. The importance to US security of achieving a self-sustaining European economy is obvious.

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MOUNTING TENSION IN EASTERN EUROPE

4. Defeat of the Greek Guerrillas.

The cumulative effect of the closure of the Yugoslav frontier and of successive Greek Army victories in the Vitsi and Grammos areas constitutes a severe setback for the Greek guerrillas. They have lost not only their two principal fortified positions in Greece, but also control of the territory best suited for the infiltration of men and supplies into the interior. If now the Greek Army can both control the Albanian frontier and pursue vigorously the guerrilla bands still at large, the prospect will be good for reducing the guerrilla threat to manageable proportions.

The guerrillas are capable of staging a comeback, with Satellite aid, but that prospect is qualified by the general development of the Balkan situation. There are some 12,000 guerrillas in Albania, available for recommitment, and some 6,000 similarly situated in Bulgaria (as against an estimated 5,000 still at large within Greece). There are indications, however, that the bordering Satellites may have found it expedient to adopt a more discreet attitude for the time being. The guerrilla command may well decide to confine its activities to peace propaganda, minor sabotage, and terrorism, husbanding its strength until the spring, by which time favorable developments in Yugoslavia and a relaxation in Greece might justify a resumption of major operations.

5. The Precarious Situation of Albania.

Tito's continuing defiance of the Kremlin and Greek Army victories on the frontier appear to have aroused genuine alarm in Albania, where the position of the Hoxha regime is obviously precarious. Albanian references to a putative Greek-Yugoslav agreement to partition Albania (for which there are historical precedents going back to 1912) are indicative of this state of apprehension. Tito is probably prepared to subvert the Albanian regime, but the threat to do so serves as a counter against the threat of Soviet-Bulgarian

subversion of Macedonia, while its execution would be a severe provocation to the USSR. The Greeks would be unlikely to join Tito in such a provocative enterprise, or to be welcome partners to him. A radical development in the Albanian situation is therefore unlikely, unless and until the USSR takes the initiative in Yugoslav Macedonia, but meanwhile fear of it may serve to restrain Albania from flagrant provocations.

6. Soviet-Yugoslav Tension.

It is against this background that the mounting tension between the USSR and Yugoslavia must be viewed. This intensification of Soviet pressure against Tito cannot be dismissed as routine war of nerves. For the Kremlin the stakes are high and the hand must be played out. Tito's contumacy and the dangerous influence of his example are in themselves intolerable. Economic sanctions having had no other result than to hasten Tito's rapprochement with the West, it is all the more imperative to move against him by more effective means before his position in Yugoslavia is further strengthened and his realignment with the West is firmly established. These developments, in combination with effective suppression of the Greek guerrillas and the disappearance of Albania as a Soviet Satellite, would not only mean the expulsion of the USSR from the western Balkans, but would have fateful repercussions in Bulgaria and throughout Eastern Europe.

It does not follow that the USSR has any present intention of direct resort to armed force in order to overthrow Tito. The risk of general war, even if it be judged slight, is a restraining factor pending the trial of other means. The very war of nerves itself tends to protect isolated Albania, and so long as Albania remains under Soviet control both Greece and Yugoslavia are subject to the threat of guerrilla action. Moreover, the current pressure serves to embolden and support dissident elements within Yugoslavia. These appear to be its immediate purposes. For

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the time being, therefore, the threat to Tito's position is of a Stalinist coup or Macedonian insurrection rather than of direct Soviet military intervention. It is probable, however, that Tito is capable of controlling the situation within Yugoslavia.

7. Other Aspects.

Meanwhile the USSR has made further specific advances toward consolidation of

Stalinist control in Bulgaria, Hungary, and Czechoslovakia. Soviet "welshing" on the Austrian treaty may be, at least in part, the consequence of a desire to prolong the stay of Soviet troops in Austria, Hungary, and Rumania. The Communist-led strikes in Finland were probably intended to test the ripeness of that country for an extension of Soviet control. (If so, the Kremlin bit into an unripe persimmon.)

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THE DISINTEGRATION OF RESISTANCE IN CHINA

8. Prospects on the Mainland.

The sands are running out for Nationalist China. On the continent, resistance to the Communist advance has disintegrated into three isolated segments, the continued existence of which is more a matter of Communist logistical limitations than of their own inherent strength. Recent events in Yunnan are indicative of a tendency toward further fragmentation in transition toward accommodation with the Communists.

In the Northwest (Tsinghai, Kansu, and Ningsia) Ma Pu-fang has some 130,000 good troops, but no appreciable logistic support. He yielded Lanchow in order to maintain his force in being, but the necessity to do so underscores the weakness of his position.

In the Southwest (Szechwan and Yunnan) Chang Chun nominally commands 200,000 men, but has less than 35,000 under his direct control. The Yunnan incident emphasizes his weakness. Terrain barriers may delay the arrival of the Communists in Chungking, but not for long.

In the South (Hunan, Kwangtung, and Kwangsi) Pai Ching-hsi and Li Tsung-jen

have 260,000 troops. Unable to prevent the capture of Canton, they probably intend to fall back upon their native province, Kwangsi, but cannot be expected to hold out there, under pressure, for longer than a few months.

9. The Prospect on Taiwan.

The prospect for continuing resistance on Taiwan (Formosa) is somewhat better, but because of its insular position, rather than by reason of military or political strength. Chiang Kai-shek has assembled there some 100,000 troops, as well as the National Air Force and Navy. The successful withdrawal of an additional 100,000 troops from the adjacent mainland would raise his over-all strength to some 300,000. These forces, however, are demoralized by defeat and longstanding maladministration. Dissension already exists in the high command. The position is further undermined by Taiwanese disaffection. The Communist lack of a present capability to mount a major amphibious assault may afford the Nationalists some respite, but the probability is that eventually Taiwan will fall of its internal weaknesses without necessity for such an assault.

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THE UN GENERAL ASSEMBLY

10. The Soviet Approach.

With the dual purpose of retarding implementation of the North Atlantic Treaty and of obtaining Western capital equipment for the USSR and its Satellites, the Soviet propaganda leitmotif at this year's General Assembly is likely to be Soviet devotion to peace and to East-West trade. The alleged aggressive intent of the Atlantic Pact will be contrasted with the universal popular demand for peace as recorded at sundry peace congresses held under Communist inspiration: the United Nations may be called upon to declare "aggressive alliances" to be a violation of the Charter. At the same time the alleged dollar imperialism of ECA and the real difficulties confronting the OEEC will be contrasted with the mutual benefits to be derived from increased East-West trade. The USSR may also take the occasion to call for a reconvening of the CFM to resume consideration of a Ger-

man settlement as well as the Austrian treaty and an early peace treaty with Japan.

11. The Agenda.

The General Assembly agenda includes fewer major problems than those of recent years. In the case of the Italian colonies, the shift of the Western position from trusteeship toward early independence for Libya should permit a settlement of the issue at this session. With the dispatch of the Economic Survey Mission to the Near East and the Hague Round Table discussion in progress, less may be heard of the perennial Palestine and Indonesia cases. A new problem looms in China's eleventh-hour appeal against Soviet violation of the Sino-Soviet Treaty of 1945, a matter likely to prove more embarrassing for the Western Powers than for the USSR. There is also the unlikely possibility of a Yugoslav appeal against the menacing attitude of the USSR.

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4193—STATE—1949